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NATIONAL SECURITY COUNCIL
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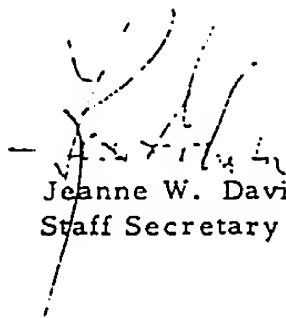
June 1, 1971

MEMORANDUM FOR:

Under Secretary of State John N. Irwin
Deputy Secretary of Defense David Packard
Chairman, Joint Chiefs of Staff Admiral
Thomas H. Moorer
Director, Central Intelligence Richard Helms

SUBJECT: Response to NSSM 124: Next Steps Toward the
People's Republic of China

Attached is the study prepared by the Interdepartmental Group
for East Asia in response to NSSM 124. It will be the basis
for discussion at the SRG meeting scheduled for Tuesday,
June 29 at 3:00 p.m.


Jeanne W. Davis
Staff Secretary

Attachment

Declassified/Released on 7/21/96
under provisions of E.O. 12958
by J. Saunders, National Security Council

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NEXT STEPS TOWARD THE PEOPLE'S REPUBLIC OF CHINA - NSSM 124

May 27, 1971

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NEXT STEPS TOWARD THE PEOPLE'S REPUBLIC OF CHINA -

NSSM 124

Preface

On April 19, 1971, the President directed:

"a study of possible diplomatic initiatives which the United States might take toward the People's Republic of China (PRC) with the objective of furthering the improvement of relations." NSSM 124 further directed that "The study should assume that there will be no change in our policy of recognition of or support for the Government of the Republic of China."

The introduction of this response to the President is an analysis of the principal factors in US-PRC relations which have bearing on the selection and timing of the next initiatives.

This is followed by three Groups of initiatives which the President might wish to approve ranging from some which could be unilaterally undertaken at any time with minimal preparation to those which require the concurrence of the PRC for implementation.

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NEXT STEPS TOWARD THE PEOPLE'S REPUBLIC OF CHINA - NSSM 124

INTRODUCTION

I. The Present Situation

For over a decade we have tried to get the People's Republic of China to defer the central problem between us--Taiwan--and to discuss at Warsaw what Peking called "minor questions," various means of contact between our two peoples. We have sought these contacts in the hope that better understanding might gradually move us toward resolution of more fundamental problems between us. Only in the past two years, however, have we made significant unilateral moves in an effort to bring this about. Peking has now acted too--and, perhaps significantly, in the one area wherein we so far have permitted an "equal and comparable" arrangement, that of travel.

Both sides have doubtless recognized the danger inherent in nearly two decades of deeply inimical confrontation. In the present changed context, both sides seem at last to view the rigidities long associated with that confrontation as being unnecessarily self-limiting.

The events of April in Sino-US relations are significant. But they do not yet touch on fundamentals. This paper presents steps to stimulate further normal contacts between China and the United States in order to test whether we can now move on toward a more fundamental regularization of our relations.

II. PRC Motives and Tactics

Peking's "people's diplomacy" towards the US is a dramatic departure. But it does not necessarily mean that the Chinese leaders have changed their hostile view of the US or revised their major foreign policy goals--recognition as the dominant power in Asia, accommodation of other Asian states to PRC policies, elimination of the Nationalist Government, and the withdrawal of US military presence from Taiwan and the Asian mainland.

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The new approach to the US forcefully underlines another policy goal--recognition of China as a world power.

Probable Motives

Peking wishes both to raise the prospect of a dialogue with the United States as a warning and lever against the Soviet Union and to erode the GRC's international and domestic position. Peking's "reasonableness" toward the United States is certainly designed to induce other countries to recognize the PRC and to garner support for entry into the UN on its own terms--GRC expulsion. Additional considerations are to move the Japanese government towards accommodation, and to increase domestic US pressure for changes in US China policy.

Internal Chinese Developments. Most of the Chinese leadership appears to have backed the post-Cultural Revolution drive for a more normal international status. But there have been enough disruptions in the pattern of Chinese behavior, particularly in the domestic area, to suggest serious policy debates. The moderate line appears firmly in control, but the radicals undoubtedly continue to exercise a restraining influence on friendly approaches to the United States, especially in areas where this might involve substantive Chinese concessions. Conceivably, visible failures in the current international initiatives could contribute to a reversal of line.

The American Factor. If satisfied by the degree of success they see from their initial step, the Chinese may take bolder actions, including a resumption of the Warsaw Talks or some other form of official contact with the United States, though this is by no means certain. We should not expect Peking's interest in building the momentum of its American policy to lead it to accept any major undercutting of its bargaining position on the Taiwan issue.

Some US actions could cause Peking to hesitate in its new approach or even turn "people's diplomacy" into an

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activity intended mainly to embarrass the United States Government. Examples include:

- A major US escalation in Southeast Asia.
- The transfer of US military facilities and functions from Okinawa to Taiwan.
- Formal US adoption of a "two Chinas" position.
- Vigorous US leadership of a campaign clearly intended to block PRC admission to the United Nations.

The Chinese will be acutely sensitive to questions of equality of treatment, especially as compared with the USSR. To avoid appearing in the supplicant's role by rapid response to US initiatives, they may not publicize trade activities and may be embarrassed by public or semi-public discussions of scenarios for improving relations that appeared to emanate from official US sources. To gain maximum impact on US public opinion, Chinese moves may be correlated with US Congressional hearings and the 1972 election campaign, and be directed toward individuals seeking more rapid changes in US policy.

The International Context. Peking will attempt to secure maximum international support on Chirep and minimize US opposition. If they fail to obtain their seat, the Chinese would be likely to increase their pressures again the following spring. If they win, they would be better positioned to make additional moves to capitalize on their new prestige and on Taipei's discomfiture.

Other developments which could quicken their pace would include a dramatic increase in Sino-Soviet tensions, a buildup of pressure in Japan to change its China policy, and a breakdown of morale on Taiwan. The new Chinese course risks displeasure in Hanoi and Pyongyang. Over time, unhappiness in these quarters could cause Peking to hesitate, especially if its initiative does not appear to be bearing fruit.

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III. US Objectives and Strategy

A. Objectives. Some US and PRC objectives overlap-- examples are allowing US-Chinese relations to develop as a way of offsetting Soviet pressures on each of us and avoiding armed conflict between the United States and China. That renewal of contact between us may permit us to work from these common interests toward mutual accommodation in areas of disagreement is the premise underlying our basic policy of encouraging PRC entry into the world community and improving our bilateral relations.

On the other hand, we intend to continue our policy of recognition of, and support for, the GRC, and we will have to assure ourselves at each turn that US-GRC relations do not suffer to the point of jeopardizing our most fundamental objectives toward Taiwan--insuring its security from external attack and maintaining necessary military access for ourselves. Much will have to happen between the PRC and us before this minimum is in danger, but it is within those limitations that our next steps toward the PRC must take place.

Not all of the US objectives that might be sought via better US-PRC relations (or even unrequited US initiatives toward Peking) relate strictly to the GRC and PRC. And some may be even more important than those already mentioned:

-- Preserving the present US-Japanese relationship. Judging from reactions so far (see below), reducing US-PRC tensions can serve this objective, though that depends greatly on how well we handle the process.

-- Maintaining public support for our foreign policy. Even the first, uncertain indication of a thaw between Washington and Peking has produced strongly favorable public reactions, both internationally and at home. This strengthens the credibility of our expressed desire to deal peacefully with all nations, offsetting antipathies toward the Indochina war. Thereby, it increases our ability to deal with the whole spectrum of other international issues.

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B. Strategy. Our handling of the Table Tennis episode has shown that the United States Government welcomes--and does not fear--Peking's new flexibility. Additional relatively innocuous steps by us and an amiable attitude toward further moves by Peking can serve the same purpose.

The Mix of "People's" and Governmental Diplomacy. Peking is faced with certain conflicts in its objectives:

- It wants to recover Taiwan, which pits it against US policy.
- It wants an improved relation with the USG, if for no other reason than for leverage to use on the Soviets (and perhaps the Japanese).

The conflict is reflected in Peking's current resort to popular, as opposed to governmental, diplomacy vis-a-vis the US.

Popular diplomacy serves both objectives--to some extent. By appealing to US and world opinion on a people-to-people basis, Peking improves its prospects for getting the GRC expelled from the UN. Whether this succeeds or not, however, Peking will still confront the US defense commitment to Taiwan. Peking expects its popular diplomacy to help here too, because public pressure will force the US Government to make further concessions. This in turn could ultimately lead to better US-PRC governmental relations--which Peking surely requires if China's position with respect to the Soviets is to be enhanced in any substantial and enduring way.

Peking may hope for this strategy to work. But in the short-run it cannot expect much on the government-to-government front if it requires first that the United States sever its ties with Taiwan. And it has problems with the Soviet Union now. To pursue both its current objectives, therefore, it cannot give absolute priority to the Taiwan issue. While it may show relative toughness toward us on Taiwan between now and the UN vote next fall, it will hardly wish to foreclose all its options on the governmental side.

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Our tactical dilemma is similar to Peking's. We would like to improve relations--without making crucial concessions on the Taiwan issue. Peking's popular diplomacy offers an opening for us, but it is more advantageous for us to be able to deal also on a government-to-government basis.

-- The latter would show Peking that any improvement in relations was a deliberate act of USG policy, not something caused by popular pressure on the Administration.

-- It would erode Peking's policy of focusing on a "solution of the Taiwan issue" to the preemption of all other business in its governmental dealings with us.

-- It would move us more quickly toward a relationship in which our most serious objectives can be pursued, since these are matters that must be dealt with between governments.

It should, therefore, be US policy to try to move our contacts more into a governmental plane or to involve the government in some appropriate way in people-to-people contacts. This has been done, for example, in the handling so far of the Table Tennis visits (through the President's reception of Steenhoven, official facilitation of visas and invitations, etc.).

Conciliatory governmental gestures by us, even if not taken up by Peking, would offset attempted PRC pressures on the US Government through purely people-to-people contacts. More importantly, approaching Peking on a governmental basis will probe the relative priority it actually accords the Taiwan issue as an obstacle to better US-PRC relations.

This does not mean that we should take no steps on the Taiwan issue until the returns from other moves are in. If only for reasons of consistency Peking must press seriously for something on the Taiwan issue. But we can start modestly with additional steps in store should developments merit our taking them.

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We should thus be careful not to convey to Peking by words, acts or even nuance, that our objective is to obtain PRC agreement to "put the Taiwan issue aside." On the contrary we are neither unwilling nor afraid to discuss it. (This position would be conveyed, when and if appropriate, privately and to the PRC only.)

The Options Available--Moving by Graded Steps. The options presented in this paper are divided into three groups. Each group represents an increase in seriousness of impact along several fronts:

-- The Groups would be progressively more difficult to accept for the GRC and the Soviet Union, each of whom opposes reduced US-PRC tensions.

-- Congress and public opinion in the United States and elsewhere will probably also react differently to the moves in the successive Groups. Some of the later moves, for example, would be substantial departures from long existing patterns. Reactions will be easier to judge as the earlier, more innocuous moves are made.

-- The effect of these moves will be to press the PRC increasingly to deal with us on a government-to-government basis. The range of moves included in each group is intended to permit selection of a mix with enough interest to Peking to bring it along. Actual choice of what, if any, mix to implement will, of course, depend on the overall circumstances of the time.

-- The moves in the first group are innocuous in their effect on US security interests, the likelihood of adverse domestic or international reactions and the like. Some moves in the second and especially the third group, however, become increasingly steps we should take only as merited by other developments, especially (but not exclusively) PRC reactions to our earlier moves. This is particularly important in the military field, and steps challenging the GRC's legitimacy.

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The impact of these moves will vary with their quantity and timing. Many steps taken simultaneously will have more impact--for a while at least--than would the same steps spaced out. Bunching them may also leave the problem of what to do for an encore. If many innocuous steps are taken together, the first impact may be great, but the later impact of more consequential steps may be reduced. The public and other governments will have grown more accustomed to movement between the United States and the PRC. Accordingly, this might increase our room for maneuver later on.

Chinese Responses. Peking is more apt to take small steps to improve atmospherics and maintain a sense of momentum than to propose or undertake major new departures affecting Sino-US relations.

It will probably want to move cautiously, assessing the effect of each step it takes before moving to the next. Among the steps open to the Chinese are the following:

-- Favorable comments on US attitudes and initiatives by such leaders as Chou En-lai.

-- Private remarks by Chinese officials designed to reach US officials which assess the possibility of further improvement in bilateral relations in a realistic and generally favorable light.

-- Increased contact by Chinese diplomatic officials stationed abroad with Americans in official and unofficial positions.

-- An alteration in the tone and content of Chinese domestic and foreign propaganda resulting in a marked diminution of anti-American themes. Personal attacks on President Nixon have already largely ceased in Peking's external media; further steps in this direction are possible.

-- Admission to China of US public figures, for example, US Congressmen, with whom Chinese officials could hold responsible if unofficial discussions.

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-- Admission of relatives of the US citizens still held in Chinese jails for visits.

-- Relaxation of PRC restrictions on trade and resumption of Sino-US talks in Warsaw or elsewhere. Trade moves are likely to be initially rather small and may depend in large part on Peking's reading as to whether or not the US continues to discriminate against China in relation to the USSR. Chinese interest in resuming the Warsaw dialogue would probably depend on Peking's reading of the desirable mix between "people's diplomacy" and government-to-government contacts, as discussed above.

One obviously desirable Chinese response would be the release of some or all of the four US prisoners still held in Chinese jails. Peking would probably react negatively if it came to feel that the United States was making further improvement in relations dependent on the release of the prisoners. On the other hand, they have in the past released foreign nationals held in Chinese jails as an indication that relations with the country in question were already improving and could improve further. This approach was employed most recently in the case of Great Britain. But even if Peking were to decide to release some or all of the prisoners, they are likely to do so later rather than sooner, as progress is made in bilateral relations.

Chinese responses, however, are only one element in assessing the usefulness of US initiatives. The options set forth in the first group and most of those listed in the second group are really not dependent on specific moves by Peking. Favorable domestic and world impact or problems relating to Soviet-US relations might make some or all of these options desirable, even in the absence of a clear and favorable Chinese move. The options in the third group, however, generally require some specific and favorable movement on the part of Peking. These responses are listed under the individual options themselves.

Constraints. In taking additional steps toward improved relations with the PRC we must avoid their being

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misinterpreted by Peking and our allies as indicating US weakness. If so construed, they might stimulate the PRC to step up pressures rather than improve relations. This is especially so in the military sphere. An excessive unilateral reduction of our close-in military presence, for example, could be misunderstood by Peking as meaning we would not resist Communist aggression. It could leave us less prepared to counter such aggression should it occur. And it could undermine the confidence of our allies. Given these uncertainties about Chinese motivation, initiatives which might be considered in the military area should be confined to those which do not detract from essential US and allied military capabilities. Significant changes in the size and nature of our military presence in Asia have already been taken over the past several years. Reductions in the US troop strength in Korea and Southeast Asia, the reduction of base facilities in Japan, the reversion of Okinawa, discontinuance of the Taiwan Strait Patrol, reduction in MAAG China strength, withdrawal of KC 135 tankers from Taiwan, and contemplated reductions in the Philippines present a pattern which, together with the lowered profile called for by the Nixon Doctrine, constitute a major shift in the thrust of our military policy in Asia. Given US specific bilateral commitments to various nations on the periphery of the PRC, as well as the more general commitments expressed in the Nixon Doctrine, further dramatic initiatives in the field of military reductions should not be considered except with all due caution. For example, a sudden drop in the US military presence on Taiwan that exceeded reductions consonant with our withdrawals from Viet-Nam should probably not be taken in the absence of other justifying circumstances.

An additional constraint exists by virtue of the lack of governmental contact between the US and the PRC. In the case of the USSR, because of the existence of diplomatic relations and the various post-World War II multinational military groups and committees on which both the US and the USSR have been represented, it has been possible to negotiate reciprocal arrangements to dampen risks to vital interests. In the absence of formal US-PRC contacts, initiatives must be unilateral and intentions made apparent by gestures and pronouncements. Such a situation is extremely fragile and is easily subject to misinterpretation. This danger may be reduced to the extent that we are successful in drawing the PRC into government-to-government contacts. US initiatives on the military side which facilitate such contacts, without endangering our essential military capabilities, would therefore be helpful.

The military options in the first and second groups, if taken under the circumstances specified for each, are not

expected to produce the various undesirable consequences discussed in this Introduction. Those in the third group should probably not be taken without further review, as is more fully explained below.

IV. Chirep Implications

"Next steps" of the type described in this paper could be taken in association with either of the Chirep options set forth in NSSM 107: (a) maintain our present policy unchanged, understanding that this will lead to early defeat; (b) shift to a dual representation policy, perhaps in association with advocacy of universality of UN membership.

An Unchanged Chirep Policy. Steps we have already taken toward detente with Peking have inclined some countries to conclude that the United States is emphasizing bilateral relations with Peking and de-emphasizing the Chirep issue. As we take further steps, our ability to influence votes on this issue, which is already declining, will diminish further. The basic conclusion, however, is that the IQ will fail and the Albanian Resolution would pass in any event.

Maintaining our past policy would probably be most conducive to better relations with Peking, as this would be the course most likely to lead to early seating of the PRC on its own terms. The reaction in Taipei is more difficult to gauge, because President Chiang's final attitude toward dual representation is still unknown.

Dual Representation. If we begin working for dual representation at the same time or before taking additional bilateral normalization measures, these "next steps" can help in the essential task of convincing other members of the General Assembly of our good faith. On the other hand, further moves toward detente with Peking combined with silence on Chirep, or simple reiteration of our past position, has the effect of adding new passengers to Peking's already rolling bandwagon.

We may expect that Peking will denounce any dual representation approach, no matter how carefully framed, as a variant of the "two Chinas plot." This does not necessarily mean that adopting such a policy will impede Peking from taking steps toward detente, although there is a serious risk of that happening. The distinction Peking draws between the US Government and the American people gives it whatever flexibility it needs to continue or turn off its "people-to-people" diplomacy.

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V. Third Country Reactions

GRC. Taipei reacts to our initiatives toward Peking against a general background of accelerating deterioration in the GRC's international position, for which they hold US policy toward Peking in part responsible. Apprehension has been increased by recent events suggesting that the US is prepared to take additional unilateral steps favorable to Peking.

There appears to be a fatalistic realization within the GRC that these unfavorable trends are inevitable and irreversible. Disappointment and frustration, frequently directed against the US, have been evident in both official and public reactions. There has been a slight cooling in the conduct of US-GRC official relations, but sufficiently restrained to avoid an atmosphere of crisis. There also has been some rise in anti-American sentiment.

Basically, the harsh realities now closing in on the GRC confront President Chiang with a choice between accommodation and adamant refusal to compromise basic principles and policies. He apparently has not yet reached a decision. Although capable of lashing out bitterly at what he may regard as "betrayal" by the US, Chiang's reactions are shaped not only by pride and stubbornness but also by a shrewd regard for the essential interests of his government. He may not consider UN membership essential to those interests. It is almost certain, however, that he still sees the US-GRC relationship as critical to the survival of his government.

It, therefore, seems likely that the GRC will continue to respond cautiously and in a restrained manner to additional relaxations of trade controls and to efforts to encourage increased unofficial commercial and cultural contacts between the US and the PRC. GRC apprehension will increase to the degree that the USG is officially involved in such contacts, but its reaction probably will remain within manageable limits. The strength of the GRC reaction will increase sharply as our initiatives move in the direction of expanded and higher-level official contacts or agreements which implicitly accord the PRC status as the legitimate authority over mainland China. At the high end of the scale will be GRC reactions to any shift in the US

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position in the direction of challenging its claim to continued authority over Taiwan or explicitly denying its claim to be the legitimate government of all of China.

The logic of survival, reinforced by counter pressures within his own government, are likely to restrain Chiang from a break in relations with the US. But the strength of Chiang's reaction could damage the effectiveness of the US-GRC relationship in serving US interests and might undermine the credibility of the US as an ally in the eyes of other nations.

Japan. The initial Japanese response to the travel of American newsmen and the Table Tennis team to China was overwhelmingly favorable. However, this new and fast-breaking situation has aroused longstanding Japanese fears that they will be left behind or that their concerns will be ignored. China is increasingly a political issue in Japan. A Japanese Government that appeared not to have been consulted by us in a major development would be in serious trouble. Neither it nor its successor (if it fell) would soon again acquire the confidence in us necessary to sustain the present, highly desirable US-Japanese relationship.

Full advance consultations are the key to Japanese reactions to further US initiatives. Done well, they should smooth the way for most of the options listed below. However, this means being prepared to entertain, and adapt to Japanese proposals that help them accept or cope with the moves we propose.

Given adequate consultations, all of the options in this study (if taken under the conditions specified for them) are probably manageable on the Japanese side. A possible exception is the proposal (third group) for talks among the five nuclear powers. It is hardly in the US interest to require Japan to explode a nuclear device to join the talks. It is not clear that inviting a non-nuclear Japan to the talks is the best way to keep her non-nuclear. This initiative should be reviewed later, in the light of prevailing circumstances--before consultation on it with the Japanese.

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Soviet Union. The Soviets have been predictably apprehensive about recent developments in US-PRC relations. Although Soviet leaders have made no high-level statements about recent events, Soviet media have criticized both US and PRC motives. Implicit in the criticism is the assumption that anti-Sovietism is the motivating force behind signs of limited rapprochement.

Much of Moscow's criticism of Peking has been aimed at Hanoi and Pyongyang. Soviet propaganda questions Peking's anti-imperialist credentials and links the April 14 announcement of new US trade relaxations with alleged PRC restraint toward US military actions in Laos and Cambodia. The Soviets maintain that the Nixon Doctrine, especially as applied to Indochina, depends on the PRC's tacit support for its success.

Moscow's criticism of US motives has been less voluminous. The Soviets assume that the US seeks better US-PRC relations in large part in order to "split the Socialist world" and put pressure on the USSR. The new element in the situation is not US intent but Peking's willingness to go along. Therefore Moscow views recent developments more as Peking's response to US overtures than a change in US policy.

Should the Chinese now decide to move further by going from people's diplomacy to government-to-government diplomacy with the US, Soviet concerns would be greatly increased. If this were accompanied by PRC renewal of tensions over the Sino-Soviet border issue, Soviet apprehensions could approach paranoia.

At the most fundamental level, the Soviets worry about the ultimate effect that changes in Sino-US relations might have on Soviet security. Thus the Soviets will very carefully scrutinize any changes in US China policy concerning military deployment (especially in the Taiwan area), disarmament, trade in technically advanced items, and scientific exchange. They will look less apprehensively at cultural exchanges and trade in non-sensitive items--which imply more about atmospherics than substance. No doubt Soviet apprehensions can be lessened by choosing US initiatives which approximate existing arrangements with the USSR.

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Other Asian States. While the President has publicly stated that "evolution of our dialogue with Peking cannot be at the expense of international order or of our own commitments," there remains a not unnatural sensitivity on this score on the part of those Asian nations which depend on American presence or guarantees for their ability to resist Chinese pressures. This is most pronounced in the case of Thailand, but also applies in varying degrees to Korea, Indonesia, Malaysia, Singapore and the states of Indochina. We can therefore expect to be faced with the need for prior consultations or reassurances for Thailand and others, including the Philippines, in the event our initiatives toward Peking go beyond a certain level. The level at which these considerations might begin to apply would include (but not exclusively) the following moves: establishing a trade (or other) office in the PRC or a significant reduction of US forces on Taiwan.

Australia and New Zealand feel that they have a very special interest in US-PRC relations. They are strong supporters of the GRC and their estimate of the situation and what can and should be done about it is very similar to ours. We have consulted with them closely hitherto on all aspects of the problem and should continue to do so.

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LISTING OF OPTIONS IN GROUP I

1. Option: Cultural, Scientific and Industrial Exchange
 - A. Inform all USG agencies that we encourage the inclusion of the PRC in exchange programs operated with USG funds.
 - B. Offer an exchange of weather information (technical official level) and other unclassified scientific data (technical official level and/or private).
2. Option: Transportation: Sea and Private and Charter Aviation
 - A. Announce authorization for US-flag merchant ships to call at PRC ports and express willingness to facilitate clearance of PRC-flag merchant ships for entry into US ports.
 - B. Announce that the prohibition on US commercial charter and general aircraft operating to the PRC is being rescinded and that the US is prepared to facilitate entry of PRC civil aircraft into the US on a non-scheduled basis.
3. Option: Trade Initiative

Place the PRC in Country Group "Y", thereby permitting exports to the PRC, without prior validated licenses of all commodities and technical data not now under prior licensing control to the USSR.
4. Option: Trade Promotion
 - A. Encourage private organizations to invite a PRC trade delegation to the US.
 - B. Encourage private American groups to invite the PRC to exhibit at a trade fair in the US.
 - C. Encourage joint meetings between the American Chamber of Commerce in Hong Kong and a local PRC organization.

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5. Option: Arms Control

- A. Propose an information exchange on nuclear weapons safeguards.
- B. Invite PRC attendance at Pugwash-type meetings.

6. Option: US Military Presence on Taiwan

Reduce to a minimum or where possible eliminate surface and air reconnaissance and intelligence activities that infringe on territory controlled by the PRC.

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OPTIONS

GROUP I

This group is composed of policy options which could be selected for implementation at any time for the following reasons:

- a) They should provide a preliminary test of PRC willingness to move toward greater detente.
- b) The possible adverse reactions of the GRC, Japan, and the Soviet Union should be relatively moderate and manageable, the impact on Chinese Representation at the United Nations should not be serious, and the probable Congressional response should be favorable. Reactions will depend on the total effect of which options are chosen and the timing of their implementation.
- c) No negotiations with the People's Republic of China would be required for implementation.

Anticipated Third Country Reaction

The Government of the Republic of China

-- the GRC probably anticipates further US initiatives toward the PRC along the lines of most of the individual moves in this group. We have already informed the GRC of our intention to take further steps to remove obstacles to an increase in contacts and to test PRC willingness to permit an improvement in relations.

-- Provided we avoid the appearance of a sharply accelerated US effort to achieve a rapprochement with Peking, we anticipate that the GRC reaction to any of the moves in this group, taken individually or in combination, will continue to be relatively restrained, reflecting an agreement to disagree with our effort to improve relations with the PRC.

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-- GRC concern for the possibility that such moves may contribute to the erosion of its international position may increase if the pace of third-country recognitions of Peking increases and as the 26th UN General Assembly session approaches. Under these circumstances, the GRC may press us to defer further initiatives until after the Chirep vote.

Japan

-- The Government of Japan anticipates further US initiatives toward the PRC along the lines of the individual moves described in Group I. Although the Japanese would view the moves as contributing to a further lessening of tension in East Asia, they would continue to be very nervous about whether the US were moving out ahead of Japan in its relations with China. Their concerns on this point could be accommodated, provided we consulted with the GOJ prior to each step.

-- We should be prepared to see the Japanese make compensatory moves in response to the added pressures within Japan which our actions would generate.

USSR

-- The Soviets would be apprehensive about the political implications of Group I initiatives. Nevertheless, as they already enjoy treatment at least equal to that suggested by these initiatives, the Soviets might grumble but would probably not see these initiatives per se as a direct threat to major Soviet interests.

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Option: Cultural, Scientific and Industrial Exchange

- A. Inform all USG agencies that we encourage the inclusion of the PRC in exchange programs operated with USG funds. (Such notice should also encourage the opening of unclassified American facilities, public and private, on an equal basis with other nationalities to PRC visitors to the US.)

Principal Advantage

Would strengthen private initiatives for exchanges with the PRC.

Principal Disadvantage

Might be criticized by a few in Congress and by a minor segment of the US public.

Anticipated Result

No immediate significant number of such visitors from the PRC but a probability of some additional private exchanges that would not have been possible without USG assistance.

Implementation

Method of operation. Internal notification within the USG. The GRC and GOJ should be notified before any public announcement that we are taking this action to encourage and facilitate the exchange of persons.

Timing. At any time.

- B. Offer an exchange of weather information (technical official level) and other unclassified scientific data (technical official level and/or private).

Principal Advantage

Would demonstrate US willingness to exchange information of benefit to the Chinese people and thereby our friendship for them.

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Anticipated Result

The PRC would probably not respond affirmatively to such an offer until such time as it is willing to improve official contacts and official relations.

Implementation

Method of operation. The offer could be made through the Warsaw channel in order to reduce the possibility of its being dismissed by the PRC as merely a propaganda maneuver.

Timing. At any time.

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Option: Transportation: Sea and Private and Charter Aviation

There has been no service between the United States and the People's Republic of China by US or PRC-flag ships or aircraft since 1950 when the US Government issued Transportation Orders T-1 and T-2 (32A CFR Ch. VII) prohibiting US-flag ships or aircraft from visiting or carrying cargoes to China. In addition, the US Port Security Program places PRC-flag ships in Category 3 with ships of Albanian, Cuban, East German, North Korean, and North Vietnamese registry, all of which are denied entry. Soviet and other Eastern European-flag merchant ships (Category 1) are permitted entry on a reciprocal basis. Similar restrictions barring entry of PRC civil aircraft do not exist.

- A. Announce authorization for US-flag merchant ships to call at PRC ports and express willingness to facilitate clearance of PRC-flag merchant ships for entry into US ports.

Principal Advantages

-- Reinforces announced willingness of the US to resume trade relations, implying sufficient commercial interest to warrant shipping services.

-- Gives the PRC equal treatment with the USSR in the maritime area.

-- Increases potential for USG intelligence concerning PRC ports and naval activity.

-- Removes present discrimination against US-flag ships which, in the eyes of US maritime labor, favors "flags of convenience."

-- No intergovernmental contacts between US and PRC officials would be required for the first stage if it involved calls by US ships in the PRC. Such operations could be approved by the PRC gradually on a time scale suited to its needs. Increasing government-to-government contacts would be required only as requests for calls in the US by PRC ships developed.

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Principal Disadvantages

-- Increases the possibility of frictions between the US and the PRC should US merchant seamen and officers get into trouble in China, or vice versa, unless protective services are available either directly or through third parties.^{1/}

-- Could founder if US longshoremen refuse to work PRC-flag ships, either generally or in particular. (East Coast longshoremen have refused to work Soviet ships, but West Coast longshoremen have accepted them.)

-- GRC might retaliate by refusing entry to US ships calling at PRC ports.

-- Could lead to an increase in PRC intelligence activity here (although hundreds of Chinese seamen belonging to the PRC-controlled Hong Kong Seamen's Union already call at US ports on board friendly-flag vessels).

Anticipated Results

-- The main effect would be the re-enforcement of the concept of US willingness to open contacts with the PRC by lifting restrictions on shipping which presently work to hinder such contacts.

-- Assuming that some flow of trade will be resumed, the chance that the initiative on shipping would be accepted is improved by the fact some PRC-flag ships already call at Vancouver and the PRC might follow the recent Soviet move by extending this service to West Coast US ports. Extension of regular freighter service in that case would be commercially viable even if cargoes to or from US ports initially were rather small. The same applies to US ships on runs to Far Eastern ports. Although ships of many foreign nations already call at major Chinese ports, appearance of the US flag still would be politically significant to the PRC.

1. No Western country and few Communist countries have representatives in Chinese port cities at this time. Services for Western ships are carried out by PRC state firms.

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Implementation

Method of operation. A public announcement by the President or by the Secretary of Commerce that Transportation Orders T-1 and T-2 are being amended to permit US-flag merchant ships to call at and carry cargoes to and from PRC ports. Paragraphs 1 and 3 of page 2 of NSDM 82 (Sept. 7, 1970) and the Secretary of Transportation's Confidential memo of December 14, 1970, to the Commandant of the Coast Guard would be amended to remove PRC merchant ships from Category 3 and add them to Category 1. The Warsaw or other official communication channel would be needed to obtain advanced (at least 14 days) information about PRC ships and crews needed to comply with US visa and port security requirements.

Timing. Announcement could be at any time. (Prior informal assurance should be obtained from the West Coast longshoremen's union that members are willing to unload PRC ships.)

- B. Announce that the prohibition on US commercial charter and general aircraft operating to the PRC is being rescinded and that the US is prepared to facilitate entry of PRC-civil aircraft into the US on a non-scheduled basis.^{2/}

2. Announcement of US interest in scheduled service would imply sufficient traffic to make it economically feasible. It also might be challenged by the GRC as a violation of the spirit of the US-GRC air transport agreement. The likelihood of an acrimonious exchange taking place between the US and the GRC over this point suggests postponement of USG sponsorship of scheduled air service until bilateral diplomatic relations are established. Some non-governmental arrangement for scheduled service might conceivably be concluded between the PRC and a US airline without USG encouragement, but such arrangements could also give rise to the same reaction by the GRC. TWA currently has an active CAB certificate for China service. Pan American and Northwest Airlines could reactivate their certificates through relatively simple procedures.

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Principal Advantages

-- As in A. above, confirms US interest in resuming trade relations and implies sufficient commercial activity to warrant flights by US general aviation and charter aircraft.

-- Is likely to lead to eventual scheduled air services between the US and the PRC, but the US would have some control over the timing of such a move.

-- Would increase US knowledge of PRC civil air facilities, facilitating intelligence acquisition, and open channels of direct communication which could be used in the event of a hijacking.

-- No intergovernmental contacts between US and PRC officials would be required for the first stage if it involves private or corporate US aircraft flights to the PRC. Such operations could be approved by the PRC gradually on a time scale suited to its needs. Increasing government-to-government contacts would be required only as operations moved from simple private and corporate flights through charter operations to scheduled air services.

Principal Disadvantages

-- US-PRC relations could suffer if US aircrews got in trouble in China or vice-versa, unless protective services are available either directly or through third parties.

-- Might invite GRC retaliation. (Three US airlines-- NWA, TWA, and Flying Tiger--regularly call at Taipei, but it would be difficult because of the US-GRC bilateral for them to be harrassed. The principal effect, therefore, is likely to be on US private, corporate and charter aircraft operators.)

-- Pressure from domestic interests to operate charter flights could lead to the need for broader US-PRC official contacts, e.g., FAA might feel it necessary to verify that PRC technical aviation facilities and procedures are adequate before approving commercial charter flights. Such approaches, before the PRC is ready to accommodate us might be refused.

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Anticipated Results

-- The main effect would be the re-enforcement of the concept of US willingness to open contacts with the PRC by lifting transportation restrictions which presently work to hinder such contacts.

-- US general aviation (private and corporate aircraft) would immediately be able to begin flying into the PRC if the PRC were willing to clear such flights. First flights would probably be made by US corporate aircraft in connection with US-PRC trade.

-- All US scheduled air carriers as well as three US supplemental carriers have CAB permission to provide charter service to the Far East. Several US trunk carriers and the largest US supplemental carrier have already indicated a desire to begin operations. However, initial results in regard to charter flights would probably be modest as the PRC is not likely to admit more than a few such US flights nor to ask for more than one or two flights to the US.

Implementation

Method of operation. A public announcement by the President or the Secretary of Transportation that the Transportation Orders have been amended to permit US general aviation and chartered aircraft to visit and carry freight and passengers to and from the PRC followed by publication of the amendment in the Federal Register.

Timing. Announcement could be at any time; implementation would require a few weeks. However, it would be most desirable to make the announcement in connection with Option A. above to have the greatest impact and to preclude charges by US air carriers that aviation was being discriminated against in comparison with shipping.

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Option: Trade Initiatives

Place the PRC in Country Group "Y", thereby permitting exports to the PRC, without prior validated licenses of all commodities and technical data not now under prior licensing control to the USSR.

Principal Advantages

- Would place the PRC on the same parity level as the USSR and would eliminate the discriminatory factor.
- Would place US exporters in a greater competitive position to pursue opportunities for increased peaceful trade.

Principal Disadvantages

- May present security problems, since it would accept the position that there is little disparity between PRC and USSR levels of military development in the establishment of general licenses. It could thus result in the free movement of commodities or data which might have significance to the PRC military potential. The USSR would react negatively.
- Might enable the PRC to provide greater support to North Viet-Nam and North Korea (even though these items can already be shipped without control to the USSR which in turn can provide them to North Viet-Nam and North Korea).
- Could encourage other countries to promote export of high technology products of special military current utility to the PRC.
- Could weaken US negotiating position in forthcoming COCOM list review for maintenance of COCOM differential treatment of exceptions cases for the PRC.

Implementation

Method of operation. Publication in the Export Control Bulletin of Department of Commerce's announcement that the PRC has been shifted from Z to Y.

Timing. At any time after the submission of the report to the President on the implementation of his April 14 decisions relaxing travel and trade restrictions.

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Option: Trade Promotion

The trade promotion initiatives listed here assume that the programs recommended in the Memorandum for the President of May 13, have been adopted. These additional actions can be taken as unilateral US initiatives or can be proposed as reciprocal undertakings. If taken unilaterally, they might bring about similar PRC steps or could help stimulate a more general PRC reaction. These initiatives could be taken individually or in groups. No legislative or regulatory changes are necessary to implement them. Prior notification of the GRC and GOJ is recommended for all actions.

A. Encourage private organizations to invite a PRC trade delegation to the United States

Principal Advantages

- PRC could respond quickly.
- Degree of PRC responsiveness could be judged by the level of the delegation.
- Considerable publicity would result.

Principal Disadvantages

- Would have a relatively limited demonstrable trade impact.
- USG role in encouraging invitation will be difficult to disguise as would official nature of PRC delegation. GRC will draw conclusion that we intend to alter significantly the nature of our contacts with Peking.

Anticipated Results

Would improve the commercial climate by demonstrating our good intentions, and would stimulate the interest of US groups in visiting the PRC.

Implementation

Method of operation. Should be implemented directly through business or private organizations (e.g., the American Management Association could issue an invitation to participate in a meeting, as it did with Poland and the USSR).

Timing. At any time.

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- B. Encourage private American groups to invite the PRC to Exhibit at a Trade Fair in the United States

Principal Advantages

- Specific fair could be influenced by the USG to avoid import sensitivities (i.e., textiles, footwear).
- Would demonstrate a more direct US intent to trade than A.
- Might precipitate an invitation to the Canton Fair.

Principal Disadvantages

- Could pose technical exhibiting problems for the PRC.
- Exhibit could be a focal point for anti-PRC demonstrations.

Implementation

Method of operation. Invitation should be from the private sponsors of a trade fair.

Timing. At any time.

- C. Encourage joint meetings between the American Chamber of Commerce in Hong Kong and a local PRC organization

Principal Advantages

-- Would provide a vehicle for the exchange of information, for contacts, and for conferences between US businessmen and PRC industry and trade officials.

-- Might be particularly acceptable to the PRC because the US side would be non-government.

Principal Disadvantage

None.

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Anticipated Result

Resulting business contacts could have some trade impact.

Implementation

Method of operation. Could be implemented through the US Chamber of Commerce if agreeable to the Chamber.

Timing. At any time.

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Option: Arms Control

A. Propose an information exchange on nuclear weapons safeguards.

As a first step in discussing with Peking the problem of accidental nuclear war, we could provide the Chinese with the considerable amount of unclassified material available on the US nuclear weapons safety program. At the same time we would invite an exchange of views and information on this subject.

Principal Advantages

-- Whether reciprocated or not, would focus Chinese attention on the potential dangers involved in nuclear deployment, while giving an earnest of our desire to discuss more advanced methods to limit the dangers of accidental war.

-- Should the PRC respond in kind, we would gain valuable information on the Chinese weapons safety program, about which nothing is now known.

Principal Disadvantages

-- This action alone would not remove Chinese suspicion and reluctance to discuss arms control measures with the US.

-- There is a possibility, which could be minimized, that Peking might view our action as patronizing.

Implementation

Method of operation. This proposal is best made through the Warsaw channel. Since we propose only a transfer of unclassified material, no legislative changes are required, although it would be desirable to consult with Congressional leaders in advance.

Timing. At any time, but bearing in mind the current status of the SALT talks.

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B. Invite PRC attendance at Pugwash-type meetings.

We might propose to the PRC directly or indirectly that (a) they participate in the annual Pugwash meetings or (b) an unofficial Pugwash-type meeting be held between the US and China under the auspices of a third party such as the Swedish International Peace Research Institute. We have recently suggested to the Romanians that they might wish to invite PRC participation in the 1971 Pugwash meeting in Romania. Although it is unclear whether or in what fashion the Romanians carried through our suggestion, they recently informed us that the PRC would not attend but then said that the situation might change as a result of the latest moves in US-PRC relations.

Principal Advantages

-- PRC attendance would provide an opportunity for beginning a serious dialogue on arms control matters. Such discussions would establish useful personal contacts between Chinese and American specialists.

-- The agenda for Pugwash meetings is broad and flexible and would thus enable us to explain the more theoretical and sensitive concepts of US strategic and arms control policy which might not be suitable at this stage for the official Warsaw channel.

-- We might gain valuable insights into Chinese thinking on strategic and arms control questions.

-- Such talks could be held concurrently with the Warsaw Talks, and since they would be presumably more open and free-wheeling than an official exchange, might explore ground that could later be the subject of an official proposal.

-- The unofficial label of the discussions would lessen the repercussions such talks would have on the US-Soviet relationship.

Principal Disadvantage

-- If the Soviets were not invited to the talks, their fear of US-Chinese collusion would be fed, but perhaps to no greater degree than they are by the Warsaw Talks.

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Implementation

Method of operation. An invitation to participate in unofficial arms control discussions might best be broached through third parties--Romania in the case of Pugwash or Sweden in the case of bilateral talks sponsored by third parties. Following such an invitation it would be desirable to indicate official sanction by supporting the invitation through the Warsaw channel.

Timing. At any time.

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Option: US Military Presence on Taiwan

Reduce to minimum or where possible eliminate surface and air reconnaissance and intelligence activities that infringe on territory controlled by the PRC.^{1/}

Although no recommended reduction in the US military presence in the Taiwan area has been included in Group I, a decrease of US forces there which is now in train may give the PRC reason to believe that we are continuing to move gradually in that direction. Hopefully this will incline Peking to defer consideration of this central question as a problem in the improvement of US-PRC relations. The removal of a KC-135 tanker squadron from CCK Air Base in November 1970 lowered our military presence on Taiwan by 750 men. If plans to re-deploy Detachment 1, 405th Tactical Fighter Wing now stationed at Tainan Air Base to CCK and to consolidate other USAF units at Tainan with those at CCK Air Base are carried out, US forces on Taiwan would be further reduced by about 700 men. Also, due to requirements for increased numbers of MAAG type personnel elsewhere in the PACOM area, the Department of Defense has approved the reduction in MAAG Taiwan military personnel for FY 72 from 293 to 191, a reduction of 102. There are at present approximately 9,000 US military on Taiwan, a significant part of which is related to intelligence activities.

Principal Advantages

- Would reduce PRC issuance of "serious warnings".
- Would be a clear signal of US intentions to reduce tensions in the area.
- Might reduce PRC suspicions of US intentions.

Principal Disadvantage

- Might degrade US intelligence collection capabilities.

^{1/}The subject of intelligence was addressed in an annex to NSSM 106, prepared by the Critical Collections Priority Committee of the United States Intelligence Board. Suggestion for initiatives in the area of intelligence activities should be considered separately by the USIB.

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Anticipated Result

A reduction in the number of PRC "serious warnings", and a perception in Peking that the US, in the interest of reducing tensions in the area, is willing to respond to PRC sensitivities in the intelligence/military area.

Implementation

Method of operation. USIB would screen intelligence collection and reconnaissance requirements to determine absolute minimum levels of surveillance infringing on PRC-controlled territory. The USIB screening of intelligence requirements would include screening of requirements for the Paracel Islands. Inform the GRC to the extent required.

Timing. At any time.

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LISTING OF OPTIONS IN GROUP II

1. Option: Cultural and Scientific Exchange

Official Cultural Exchange

1. Propose USG-sponsored exchanges of medical teams or farm leader groups (low visibility option).
2. Propose USG-sponsored exchanges of sports teams or performing arts groups (high visibility option).

2. Option: Trade Promotion

- A. Invite a PRC trade delegation to the US (USG invitation).
- B. USG invite the PRC to exhibit at a USG-sponsored trade fair in the US.

3. Option: US Presence in the People's Republic of China

- A. Propose the opening of a trade mission on the mainland under the auspices of the US Chamber of Commerce.
- B. Propose the opening of a USG Commercial Office on the mainland.

4. Option: Status of the GRC

State publicly that the US does not take a position on the question of which is the legitimate government of China. Reiterate that the US recognizes and maintains diplomatic relations with the Republic of China on Taiwan and views the People's Republic of China as the effective government of mainland China and deals with it on matters of mutual interest.

5. Option: Arms Control

Propose a Washington-Peking Hot Line.

6. Option: US Military Presence on Taiwan

Reduce US forces on Taiwan in consonance with the withdrawal of US forces from Viet-Nam, for example, withdraw the 314th Tactical Airlift Wing and supporting units at CCK Air Base and College Eye Task Force; no other US military units would be deployed to Taiwan in substitution for these.

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GROUP II

This group contains options one or more of which could be selected for implementation along with or after those chosen from the above group. They also differ from those under Group I in that:

- a) The adverse reactions from the GRC, Japan, and the Soviet Union would be stronger than in Group I though still manageable, and the impact on Chinese Representation might be substantial.
- b) A number of the options would require substantially more preparatory work than those under Group I.

Anticipated Third Country Reaction

GRC. The GRC probably would regard all these moves, with the exception of the proposals for an official cultural exchange, as a significant qualitative escalation of US initiatives, moving from increased unofficial contact in the direction of expanding official relations. The trade promotion initiatives and those looking to the sending of US officials to the PRC, therefore, probably would meet with strong GRC protests partly in response to greater internal apprehension over the future course of US policy and criticism that the US is following the path of "appeasement." GRC opposition to the reduction of the US military presence on Taiwan would be strengthened if this action were preceded by other initiatives in this group, since the GRC probably would then see reduction as a political concession to Peking rather than as a consequence of troop withdrawals from Viet-Nam. Even in isolation, however, the GRC probably would react strongly to a substantial reduction of the US military presence, and President Chiang might personally attempt to forestall such action. It seems unlikely, however, that the GRC would refuse re-entry rights, although it might attempt to delay withdrawal by protracted negotiations on this and other aspects of the problem. GRC reactions to these moves probably would be less intense if they are made following action in the United Nations General Assembly which affirmed its continued membership and in conjunction with assurances of increased military assistance.

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Japan. Provided the groundwork were laid through careful consultation, the initiatives described in Group II would probably be understood by the Japanese. Some of the moves have already been undertaken by Japan itself. While our argument that we are in reality only "catching up" would have validity, these Group II moves would deepen Japanese concerns, increase domestic political strains, and cause the GOJ to seek additional means of insuring that Japan would not fall behind the US in developing relations with the PRC.

USSR. Since Group II initiatives represent a further improvement in Sino-US relations, the Soviets would be correspondingly apprehensive about their political implications as a group. Nevertheless, the initiatives themselves in general still offer the PRC less than the Soviets already enjoy. Therefore, the Soviets would probably up their propaganda output about possible Sino-U.S. collusion but would probably not feel threatened by the initiatives as such. For the Soviets, the hot line would be the most sensitive of the initiatives in this group.

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Option: Cultural and Scientific Exchange

Official Cultural Exchange

1. Propose USG-sponsored exchanges of medical teams or farm leader groups (low visibility option).
2. Propose USG-sponsored exchanges of sports teams or performing arts groups (high visibility option).

Principal Advantage

-- Either option would demonstrate to the PRC the USG willingness to encourage greater contacts between the PRC and the US.

Principal Disadvantages

-- Would give the PRC an opportunity for "cultural propaganda" in the US.

-- PRC groups might face hostile demonstrators in the US, thus presenting a security problem.

Anticipated Result

Based on Chou En-lai's statements to the US Table Tennis Team and on the PRC team's acceptance of an invitation to visit the US, there is a chance that the PRC will respond affirmatively to an exchange offer at such time as it is willing to move toward improved official relations.

Implementation

Method of operation. A formal offer to exchange cultural presentations with or without a negotiated exchange agreement could be made by the President or through the Warsaw channel. The GRC and GOJ should be informed in advance of any public announcement.

Timing. When the PRC Table Tennis Team is visiting the US, if the offer is to be made by the President, or at any time through the Warsaw channel.

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Option: Trade Promotion

A. Invite a PRC trade delegation to the US (USG invitation)

Principal Advantage

-- Would be the most direct and effective way to make commercial contact with the PRC.

Principal Disadvantage

-- Adverse GRC reaction might seriously hinder our ability to reach agreement with Taipei on such matters as restrictions on textile exports.

Anticipated Result

-- Might not accept this year, but could eventually assist the development of trade.

Implementation

Method of operation. Invitation could be extended through the Warsaw channel.

Timing. At any time.

B. USG invite the PRC to exhibit at a USG-sponsored trade fair in the United States.

Principal Advantages

-- Specific fair could be influenced by the USG to avoid import sensitivities (i.e., textiles, footwear).

-- Might precipitate an invitation to the Canton Fair.

Principal Disadvantages

-- Could pose technical exhibiting problems for the PRC.

-- Exhibit could be a focal point for anti-PRC demonstrations, possibly including clandestine GRC support.

Implementation

Method of operation. Invitation would be from the USG.

Timing. At any time.

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Option: US Presence in the People's Republic of China

While maintaining our diplomatic recognition of the GRC we could take a variety of initiatives to establish an unofficial or even official US presence on the mainland which would provide a regular working channel with the PRC, open an additional window on China, project a more benign American image in Peking and facilitate a wide range of practical contacts. Examining other countries' relations with Peking, we find ample precedent for such initiatives. In each case, however, they necessitate negotiation with and agreement by the PRC. Some or all might be rejected by Peking in an effort to extract US concessions on the Taiwan issue. On the other hand, Peking might respond positively, hoping to drive a wedge between Washington and Taipei, prodding us, the Japanese and others toward more concessions and keeping the Soviets on edge.

A. Propose the opening of a trade mission on the mainland under the auspices of the US Chamber of Commerce.

Principal Advantages

- Would facilitate trade and American tourism.
- Would offer minimal impact on PRC/GRC sensitivities over "two Chinas" or "one China, one Taiwan" "plot."
- Would improve acquisition of overt and covert intelligence on the PRC.

Principal Disadvantages

- A reciprocal mission in the US would provide Peking with an intelligence post.
- GRC probably would press us not to grant the reciprocal establishment of a similar PRC mission in the US on the grounds that this necessarily would give PRC officials a recognized position in the US.

Anticipated Result

- Peking might accept, rationalizing this as compatible with "people's diplomacy."

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Timing and Implementation

When exports to the PRC reach a point where such a move seems warranted, have the US Chamber of Commerce probe Peking noting that the move has USG backing. If necessary, use the Warsaw channel to supplement this approach, offering on a reciprocal basis to permit the establishment of a PRC trade mission in the US.

B. Propose the opening of a USG Commercial Office on the mainland.

Principal Advantages

-- Same as for Option A plus improved intelligence acquisition and reporting capabilities and the possibility of performing quasi-consular functions.

Principal Disadvantage

-- Would evoke a strong reaction from the GRC which would regard it as a significant first step in the establishment of regular, official US-PRC contacts.

Anticipated Results

Acceptance by Peking would be more problematical. On the one hand, Peking might accept this proposal as compatible with "People's diplomacy." On the other, Peking might refuse for fear that having achieved an official presence on the mainland, the US would make no further concessions to Peking and perpetuate the separation of Taiwan.

Implementation and Timing

After trade reaches an appropriate level, using the Warsaw channel propose this option instead of Option A or wait until Option A has been implemented before proceeding to this option.

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Option: Status of the GRC

State publicly that the US does not take a position on the question of which is the legitimate government of China. Reiterate that the US recognizes and maintains diplomatic relations with the Republic of China on Taiwan and views the People's Republic of China as the effective government of mainland China and deals with it on matters of mutual interest.

Principal Advantages

-- Would be a more defensible and understandable position than we have at present.

-- Would provide a good underpinning for a dual representation approach in the United Nations.

-- Would be the most compatible with the position we have taken at the Warsaw talks without, however, foreclosing our options regarding the future of Taiwan.

Principal Disadvantages

-- Would strain US-GRC relations although not so much as the two options in Group III.

-- Might preclude the possibility of persuading the GRC to acquiesce in a dual representation proposal in the UN.

Anticipated Result

Although it falls far short of Peking's objective, the PRC might view this as a step in the direction of modifying our relationship with and support for the GRC. To this extent it might improve the prospects and climate for official contact and negotiation.

Method of operation and Timing. This initiative could be taken in the form of a public announcement or formal address keyed to the completion of our China policy review or when we have reached a final decision on Chinese representation. Such a decision, however, could not be revealed before or during the coming UNGA if we intend to maintain our position on Chirep--i.e., attempt to hold the line on the Important Question and Albanian Resolution without the introduction of any dual representation resolution.

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Option: Arms Control

Propose a Washington-Peking Hot Line.

Principal Advantages

-- Assure instant communication during urgent crises, such as those following the unauthorized or accidental use of nuclear weapons.

-- In the absence of diplomatic relations, both nations could also use the hot line to transmit important messages, regarding, for example, emergency recovery of manned spacecraft, aircraft hijackings, or for other sensitive diplomatic exchanges.

Principal Disadvantages

-- The Soviets could possibly view a hot line as a further means of secret diplomatic communications between their two principal adversaries.

-- The GRC might see this as a US effort to open high-level US-PRC secret communications.

Anticipated Result

-- Peking could easily accept this proposal without encumbering it with the Taiwan issue or other extraneous political conditions.

Implementation

Method of operation. A hot line could best be proposed to the PRC through the Warsaw channel. Should the PRC show interest and desire in undertaking negotiations, an inter-agency team of experts, similar to that now negotiating in SALT, could negotiate at Warsaw or some other mutually agreed site. As pointed out earlier, this proposal should be made only after consultations with our Japanese and GRC allies. Suitable consultations with Congressional leaders would also be desirable.

Timing. At any time.

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Option: US Military Presence on Taiwan

The force reductions on Taiwan treated in Groups II and III relate to critical balances between our current posture and possible flexibility of relocation in consonance with our essential strategic military interests. However, in order to avoid a distortion of our strategic military posture, detailed decisions must be consistent with Presidential decisions on theatre deployments effective at the time.

Reduce US forces on Taiwan in consonance with the withdrawal of US forces from Viet-Nam, (for example, withdraw the 314th Tactical Airlift Wing and supporting units at CCK Air Base and College Eye Task Force; no other US military units would be deployed to Taiwan in substitution for these).*

Principal Advantages

-- Could be expected to reduce Peking's resentment over the US military presence on Taiwan.

-- Would retain a sufficient US military presence to assure the continuation of essential joint US-GRC military contingency planning and the US military assistance program.

Principal Disadvantages

-- To the extent that the units were retained elsewhere in East Asia, would raise US force levels in other East Asian countries.

-- Would increase the political difficulties of deploying other US military units to Taiwan in other than a contingency directly related to the defense of Taiwan and the Pescadores.

. -- Might be interpreted as a sign of US weakness.

* The implications of the reduction of US military presence on Taiwan were addressed in NSSM 106, including treatment of intelligence implications in a separate Annex. The OJCS representative does not concur in the designation of specific units and the restricting of future unit substitutions in the statement of the present option on the grounds that it is unnecessarily specific and restrictive and would preempt the outcome of the NSSM 69 study now underway. He recommends that

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-- Probably would meet with strong opposition from the GRC, which would be concerned that this move signified the downgrading of Taiwan's importance in US strategy and raised the threshold of US involvement in the event of an external attack, thus weakening the credibility of our defense commitment.

-- GRC probably would press hard for tangible reassurances of our defense commitment, particularly in the form of increased MAP to strengthen its air defense capabilities.

Anticipated Results

Could be expected to improve US-PRC relations further and probably would strengthen any PRC inclination to set aside the central issue of US military presence in the Taiwan area.

Implementation

Method of operation. Program the progressive withdrawal of the air transport unit on CCK Air Base in tandem with our troop withdrawal from Viet-Nam, and make provision for maintenance of base facilities for future contingency use.

Consult with the GRC in advance to explain the nature and extent of the planned reductions, confirming our desire for re-entry rights and arranging the details for the turn-over of the facilities to be vacated. Inform the GOJ and ROK approximately one week in advance of the first withdrawals.

Press guidance should emphasize that the reductions are directly related to our troop withdrawals from Viet-Nam and in no way affect our commitment to the defense of Taiwan or our ability to meet that commitment. Emphasize that GRC was consulted in advance and fully understands the basis for this action.

Timing. Start programming at any time with the redeployment beginning within six months thereafter.

(*Footnote continued)

the statement of the option end after "Viet-Nam." The OSD representative joins with the CJCS representative in objecting to the words "no other military units would be deployed to Taiwan in substitution for these." The full DOD position on withdrawal of military units from Taiwan appears in the footnote on page 74 and applies to the option on this page also.

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LISTING OF OPTIONS IN GROUP III

1. Option: Official Trade Missions

- A. Propose an official trade mission headed by the Secretary of Commerce, comprised of representatives of US business and possibly high-ranking officials from other US Government agencies.
- B. Invite the PRC to send a ministerial-level official trade mission to the US.

2. Option: Status of the GRC

- A. Make clear that we do not support the GRC claim to be the government of all of China but recognize it only as exercising legitimate authority over Taiwan.
- B. Take the position that we regard the PRC as the legitimate government of the territory over which it now exercises control while continuing to recognize the GRC as the legitimate authority over Taiwan.

3. Option: Status of Taiwan

State that we regard Taiwan to be part of China, but that we believe its relationship to the mainland should be determined peacefully by the parties concerned.

4. Option: Blocked Chinese Assets and US Claims

- A. Offer to negotiate with the People's Republic of China an over-all claims settlement.
- B. Unilaterally unblock frozen PRC assets.
- C. Unblock assets of third country banks in which the PRC possesses an indirect interest as a creditor.

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5. Option: US Presence in the People's Republic of China
 - A. Propose establishment on a reciprocal basis of a small component in a friendly embassy in Peking manned by third country nationals or by USG officials.
 - B. Propose on a reciprocal basis the establishment of official or semi-official offices with consular functions in Peking/Shanghai/Canton.
6. Option: Arms Control
 - A. Propose a renunciation of force agreement.
 - B. Propose a meeting of five nuclear powers.
7. Option: US Military Presence in the Taiwan Area
 - A. Further reduce the Taiwan Strait Patrol.
 - B. Further reduce the US military presence on Taiwan.
 - C. Maintain only a small military liaison group on Taiwan.

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Group III

The options in Group III go beyond those in the previous two groups. They are follow-on steps which we will want to consider if our relations with Peking improve and the PRC seems genuinely interested in pursuing a detente.

Anticipated Third Country Reaction

GRC. Almost all the initiatives in this group, with the possible exception of unblocking PRC assets, affect the GRC at the point of maximum sensitivity concerning US efforts to improve relations with the PRC--i.e., a perceived challenge to its claim to continued authority over Taiwan or denial of its claim to be the legitimate government of all of China and a perceived weakening of US determination to meet its security treaty commitment or basic alteration of the US-GRC mutual defense relationship. The GRC, therefore, can be expected to oppose such moves in the strongest terms, charging the US with a willingness to sacrifice the GRC's "vital interests" in order to normalize relations with Peking. In addition to high level protests and direct personal appeals from President Chiang, the GRC probably would publicly criticize our actions, and the possibility of anti-American demonstrations or acts of violence, condoned if not instigated by government officials, cannot be discounted. President Chiang and other government leaders probably will be restrained in their counteractions by a desire to avoid an irreparable break in relations and to preserve the form of the mutual security treaty relationship, even if they consider the substance largely negated by our moves. Particularly, if several of these moves are taken together, however, it will be virtually impossible to avoid even the overt evidence of a major crisis in US-GRC relations.

Japan. The moves proposed for Group III would begin to come close to the core of concerns within Japan's ruling circles about the relationship of Taiwan to their own security, the future of US Security arrangements, and Japan's own role in the evolution of a new situation in Northeast Asia.

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Virtually any of these steps would generate strains in Japan's domestic political alignments, not only in an inter-party sense, but more importantly within the ruling establishment. However, Japan's overall reaction to these moves would depend on a complex of factors, including the reactions of the GRC and the PRC to our overtures and toward such offsetting actions as the Japanese might be called upon to undertake.

USSR. Several Group III initiatives would raise serious concerns for the Soviets. They might wonder whether the reduction of the US military presence on Taiwan, especially the removal of nuclear weapons, and the renunciation of force agreement were part of a deal providing the PRC a freer hand along the Sino-Soviet border. Such suspicions could have serious implications for US-Soviet relations in general and, in particular, for our on-going negotiations with the Soviets. The other initiatives in this Group probably would not present the Soviets with too many problems.

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Option: Official Trade Missions

- A. Propose an official trade mission headed by the Secretary of Commerce, comprised of representatives of US business and possibly high-ranking officials from other US Government agencies.

Principal Advantage

-- Would underscore for both Peking and the US business community the desire of the USG to establish long-term economic and commercial relations with the PRC.

Principal Disadvantage

-- Would stimulate a strong adverse reaction from the GRC because of the highly symbolic nature of such an official USG contact with the PRC.

Anticipated Result

The PRC might accept such a proposal at such a time as Peking considers it politically expedient to expand direct trade with the US.

Implementation

Method of operation. Make the proposal through the Warsaw channel. Inform the GRC and GOJ if Peking's initial response is favorable and before any public announcement.

Timing. After the Chirep vote in the UN this year and after some direct trade has developed.

- B. Invite the PRC to send a ministerial-level official trade mission to the US.

Principal Advantages

-- Would demonstrate USG intent to further economic and commercial relations.

-- Could be regarded as reciprocal to the action in Option A.

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Principal Disadvantages

-- Might be met with hostile demonstrations from some GRC supporters in the US.

-- Would be equally offensive to the GRC as Option A.

Anticipated Result

Peking is unlikely to accept such an invitation until after an official US trade mission has visited the PRC.

Implementation

Method of operation. Invitation to be extended through the Warsaw channel. Inform the GRC and GOJ if Peking's initial response is favorable and before any public announcement.

Timing. After the Chirep vote in the UN this year, after some direct trade has developed, and possibly in conjunction with Option A.

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Option: Status of the GRC

A. Make clear that we do not support the GRC claim to be the government of all of China but recognize it only as exercising legitimate authority over Taiwan.

Principal Advantages

-- Would move some distance toward recognizing the PRC claim to be the legitimate government of all of China while preserving a status for the GRC compatible with maintaining our security treaty commitment and relations with that government.

-- Would provide an underpinning for some, but not all, forms of dual representation approaches in the United Nations.

Principal Disadvantages

-- Would place a severe strain on our relations with the GRC which would strongly protest and publicly reject such a position. There probably would be a deterioration in our official contacts, and the possibility of anti-American demonstrations and acts of violence could not be excluded.

-- Would virtually preclude the possibility of persuading the GRC to acquiesce in any dual representation formula at the United Nations.

Anticipated Result

Although Peking will recognize some movement on our part away from the GRC, any favorable impact on PRC attitudes and policies probably would be offset by suspicion that our move is designed to foster a "two Chinas" plot and to keep Taiwan separate from the mainland.

Implementation

Method of operation. This initiative could be made either in the form of a public statement in response to queries as to our position on the status of the GRC or in a general statement of China policy. Alternatively, it could be conveyed privately to the PRC in the course of direct official discussions.

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Timing. This initiative should be withheld until after we have reached a decision on our Chirep policy and, if that decision is to support actively a dual representation approach, until after the results of that approach are known.

- B. Take the position that we regard the PRC as the legitimate government of the territory over which it now exercises control while continuing to recognize the GRC as the legitimate authority over Taiwan.

Principal Advantages

-- Would make clear our willingness to treat with the PRC as a legitimate and sovereign government while retaining a basis for our continued treaty commitment to and relations with the GRC.

-- Would not foreclose our options with respect to the future status of Taiwan.

Principal Disadvantages

-- Would pose the greatest strain on US-GRC relations of all available options. The GRC might recall its ambassador, but stop short of an open break in relations. Official working relations would be severely impaired and there would be a strong possibility of anti-American violence on Taiwan.

-- Further cooperation on the Chirep issue would be virtually impossible.

-- Might provoke a serious political crisis on Taiwan.

-- Might be interpreted as acknowledging the PRC claim to sovereignty over Tibet.

Anticipated Result

Although Peking undoubtedly would denounce this position as a "two Chinas" or "one China, one Taiwan" plot, it probably would take some satisfaction in the degree of US recognition

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involved. It would take considerable satisfaction to the degree that it undermined the GRC's position and strained US-GRC ties. Peking might be willing on this basis seriously to consider movement in the direction of establishing official or semi-official relations but not to the extent of full diplomatic relations.

Implementation

Method of operation. This initiative should be made only in the course of direct official discussions with Peking and made public only in the context of some larger over-all agreement on other important issues. There should be prior consultations with other governments, particularly the GRC and Japan.

Timing. This initiative should be withheld until there are solid prospects for Peking's agreement on issues of major importance to US interests.

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Option: Status of Taiwan

State that we regard Taiwan to be part of China, but that we believe its relationship to the mainland should be determined peacefully by the parties concerned.

Principal Advantages

-- Would be a significant step in the direction of the PRC position on this issue which might make it possible to increase the pace and scope of an improvement in our relations with the PRC and to discuss other important substantive issues.

Principal Disadvantages

-- Would weaken politically and legally the basis of our security treaty commitment, our continued relations with the GRC and our support for it internationally which, should we take this position, could be cast as interference in China's internal affairs and a perpetuation of the civil war.

-- Would be a major reversal of a position to which the USG has held for some twenty years (i.e., that the status of Taiwan is undetermined) and difficult to justify other than as a concession to Peking.

-- Since this position implicitly puts the PRC on an equal footing with the GRC in determining the future status of Taiwan, it would meet with strong GRC opposition. The possibility of anti-American demonstrations and acts of violence could not be excluded.

-- Would go a long way to foreclose support for an independent Taiwan as an option for US policy.

1. Other options considered in NSSM 106--i.e., maintain our present position; take the position that we regard Taiwan as an independent entity--are not considered here since they do not constitute initiatives toward Peking.

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-- Would be strongly opposed by the Taiwanese majority as foreclosing the possibility of an independent Taiwan.

Anticipated Result

Might make possible a compromise with the PRC on the Taiwan issue which does not directly involve our military presence on Taiwan or our security treaty commitment.

Implementation

Procedure -- This initiative should be communicated to the PRC through the Warsaw channel or through other direct and private official channels.

Timing -- This initiative should be reserved until we have solid reason to believe that the PRC is prepared to reach some compromise on the Taiwan issue which will protect our interests in maintaining our defense commitment and relations with the GRC and, on that basis, to move to negotiation on other issues of importance to the US.

Consultations -- Prior consultation with Japan would be essential before advancing this initiative. Explanations should be made to the GOJ and other key governments in order to minimize the adverse impact this initiative could have on international confidence in and support for our treaty commitment to the defense of Taiwan and the Pescadores and our relations with the Republic of China.

Consultations with the GRC would be obligatory since this is a matter of direct and vital concern to it. Solid reassurances would have to be given of the continuing validity of our defense commitment. In view of the legal and political implications of this move, to be effective such reassurances probably would have to be accompanied by some agreement to continue our military assistance and maintain a US military presence.

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Congressional notification -- Consultations with key Congressional leaders would be required to make clear the Administration's intent both with respect to the PRC and our treaty commitment to the GRC.

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Option: Blocked Chinese Assets and US Claims

Approximately \$75 million in assets in which the People's Republic of China possesses either a direct or indirect interest have been blocked since 1950 as the result of the application of the Foreign Assets Control Regulations against the PRC following its intervention in the Korean War. The broad reach of the Regulations allows the blocking not only of assets in the United States owned by the PRC but also assets in which the PRC is indirectly interested. Blocked in the latter category are approximately \$24 million (or 1/3 of the total) in dollar accounts of third country banks, which in 1950 were being used in most cases to secure letters of credit the banks had opened in favor of US and European suppliers for PRC customers. These letters of credit were not used partly because of the simultaneous US embargo against the PRC. (Blocked dollar accounts of US banks total some \$700,000 and comprise a mix of PRC deposits and security for letters of credit.) The blockage of such accounts has not extinguished the PRC's claims against the banks. In the past eighteen months the Belgian Government has made a serious effort to have the USG unblock the accounts totalling \$9.6 million of a private Belgian bank. Our inability to accommodate the Belgians to date on this matter has created an important bilateral problem for relations between our two countries.

A legally separate but politically related domestic problem is the existence of approximately \$196,000,000. in private American claims against the PRC which have been processed and validated by the Foreign Claims Settlement Commission. Many such claims antedated the PRC intervention in Korea and the consequential embargo and blocking order. Nevertheless, such claimants and some members of Congress now look upon the blocked assets as a means for settling a portion of these claims. If Congress so chose, it could vest all blocked assets and distribute them among US claimants. In the view of the Office of the Legal Adviser (State) an attempt to vest the assets of the third country banks without compensation would give rise to serious Constitutional and legal

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questions and probably result in the filing of a number of claims against the USG by third countries on behalf of the third country banks. This view, however, is disputed by the Office of Foreign Assets Control of Treasury which regards the third country banks as possessing the character of a stakeholder for the PRC and accordingly feels that the legal problems which a US vesting of the assets might precipitate would not be insurmountable.

The following options for disposing of the blocked assets problem (in addition to unilateral US vesting of all assets) include a negotiated claims settlement with the PRC (Option A), unilateral US unblocking of all assets (Option B), US unblocking of assets of third country banks in which the PRC possesses an indirect interest (Option C). Options C and A are not mutually exclusive and an unblocking of the assets owned by third country banks could be combined with the USG's proposing a claims settlement negotiation with the PRC.

A. Offer to negotiate with the People's Republic of China an over-all claims settlement.

One possible initiative which might be taken vis-a-vis the PRC is to negotiate a settlement of American claims (private and USG^{1/}) against the PRC. No doubt the Chinese would in turn advance claims against the United States. The settlement might include PRC transfer of its interests in the blocked assets in the US to the USG as part of a mutual release of claims, the establishment of a mixed claims commission, or a lump sum settlement by each side. (Another means to settle American private claims against the PRC is through Congressional enactment of a unilateral vesting program--see Footnote 2.)

1. Private claims could include approximately \$5.5 million defaulted bonds. USG claims could include US embassy and consular property (about \$12 million), and possibly small amounts of USG property seized by the PRC.
2. Another means to settle American private claims against the PRC would be Congressional enactment of legislation to unilaterally vest PRC assets and distribute among US creditors (including the USG). The Congress might take such a position if pressed by US creditors. The

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Principal Advantages

- Enables settlement of legitimate US claims.
- Eventually results in termination of freezing program which keeps assets in unsettled status.
- Removes an impediment to improved political relations.
- Can be done prior to recognition.

(Footnote continued)

advantages are that such a move would give partial satisfaction to US claimants thereby removing a possible hindrance to future US commercial relations in the PRC; liquidation of assets eventually results in termination of freezing program which keeps assets in unsettled status; might be useful to demonstrate USG dissatisfaction with the PRC over a lack of willingness to negotiate on our claims.

The disadvantages are that this move: could well add significantly to frictions with the PRC; would cause substantial difficulties with several other governments, particularly Belgium (unless combined with C); would raise legal and constitutional problems with regard to blocked assets not owned by the PRC, since it would constitute an expropriation of the assets of third country banks which were dollar debtors to the PRC in 1950, while leaving such banks' underlying liability to the PRC unaffected. (Problem would be avoided if combined with C.) (In the view of the Office of Foreign Assets Control (Treasury), the liability of the US banks to the People's Republic of China would be governed by US law and thus, would be terminated by US vesting action. In addition, in Treasury's view, the third country banks are mere stakeholders for the PRC and thus would not suffer legal or financial harm from unilateral US vesting.)

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Principal Disadvantages

-- Unilateral vesting program may be more rapid means of settling US claims against China.

-- Negotiations might be protracted and would be accompanied and followed by proliferation of civil litigation related to validity of claims and legality of settlement.

-- The GRC could be expected to oppose this action strongly not only on the grounds that it involves negotiation of an inter-governmental agreement, but also that it has a claim to some of the funds likely to be involved.

-- Claimants might obtain from Congress legislation setting a deadline for the negotiations, after which unilateral vesting would become effective. Such a deadline might impede the USG's ability to negotiate with the PRC.

-- PRC may refuse to negotiate on certain classes of blocked accounts, or even totally refuse to negotiate. If Congress then enacts unilateral vesting program, PRC may react adversely.

Anticipated Result

If the PRC agreed to negotiate, would improve the atmosphere of US-PRC relations.

Implementation

Method of operation.

- a. Bilateral negotiations in an appropriate location (Warsaw, Peking, or Washington).
- b. Liaison should be established with committees of Congress and with claimants' committee.
- c. Legislation is essential for liquidation and distribution of assets.

Timing. Not before the Chirep vote in the UNCA, and probably after significant trade develops.

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B. Unilaterally unblock frozen PRC assets^{3/}

Principal Advantages

-- Would demonstrate USG desire to lift restrictions imposed during Korean War and might encourage significant response from PRC.

-- Would resolve important bilateral problem with Belgium arising out of blocking since 1950 of \$9.6 million of assets of Belgian bank in which the PRC possessed an interest as a creditor.

-- Would end hardship caused third country by blocking since 1950 of a portion of their dollar assets in the US corresponding to the indirect interest of the PRC in these assets.^{4/}

-- Would be significant in monetary terms and political terms to PRC.

Principal Disadvantages

-- Would not involve any quid pro quo.

-- GRC could assert claims, especially on accounts held in GRC depositories (Bank of China, N.Y.)

-- US claimants would be deprived of the sole pool of assets now available for claims settlement and might seek to prevent unblocking by legal action or request USG to appropriate funds to pay their claims.

-- Congress might object.

-- The totality of a country's blocked assets has never been unilaterally released before.^{5/}

3. Under FAC Regulations estimated blocked assets include roughly \$50 million which are blocked because of the direct or indirect PRC interest therein and \$20+ million which are the legal assets of third country and US banks in which the PRC possesses an indirect interest therein as a creditor.

4. Two banks in 1951 paid half a million dollars to the PRC out of other funds in settlement of their branches' obligations inside the PRC in order to secure release from the PRC of their branch managers.

5. Small portions of blocked assets have been unblocked in instances involving unique circumstances.

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-- Cuba (and others whose assets might be blocked in the future) might at some point argue that it was a precedent justifying the unblocking of their assets without settlement of US claims.

Anticipated Results

The PRC would not need to respond. The GRC would be concerned. Certain third countries, particularly Belgium, and owners of blocked assets would be pleased. Private claimants against the PRC would be angry and many members of Congress and the public would feel we should have used the blocked assets in a claims settlement.

Implementation

Method of operation. By Presidential Order, implemented by Treasury's releasing USG controls over all blocked PRC assets.

Timing. Not before efforts to negotiate a claims settlement have proven fruitless, if then.

C. Unblock assets of third country banks in which the PRC possesses an indirect interest as a creditor.

Principal Advantages

First three advantages same as those under B.

-- Would involve only one third of blocked assets and would thus preserve US flexibility by retaining approximately two-thirds of the blocked assets for use in a claims settlement negotiation or for distribution to US claimants after unilateral vesting.

-- Would remove substantial legal and constitutional problems which would arise from any attempt to expropriate permanently the assets of third country banks.

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Principal Disadvantages

-- Would not involve an immediate quid pro quo.

-- US claimants would be deprived of one third of the blocked assets which would otherwise have been available as partial settlement of their claims.

-- Some members of Congress might object.

Anticipated Results

Same as B except public and congressional criticism of unblocking might be less given substantial constitutional and legal question whether the USG could vest unilaterally assets in which the PRC held only an indirect interest as a creditor. (See explanatory note to A regarding unilateral vesting.)

Implementation

Method of operation. Same as A.

Timing. Whenever considered appropriate from the standpoint of PRC relations and relations with interested third countries, particularly Belgium.

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Option: US Presence in the People's Republic of China

- A. Propose establishment on a reciprocal basis of a small component in a friendly embassy in Peking manned by third country nationals or by USG officials.

Principal Advantages

-- Would provide a means for secure and timely official contact while deferring the difficult question of formal diplomatic relations. (Our "US Interests Section" presence in some Arab countries is a precedent of sorts for such an arrangement although we continue to recognize and have consular relations with those Arab governments.)

-- Would provide a listening post inside the PRC.

-- Would not necessarily imply "recognition" and, if this were made clear, hopefully we could sidestep some "two Chinas" or "one China, one Taiwan" sensitivities.

Principal Disadvantages

-- PRC demand for reciprocity would establish an official PRC presence in the US with capability for intelligence acquisition and liaison with radical/subversive groups.

-- The GRC would object strongly to this move particularly if the section were to be staffed by US officials.

-- Many nations, and especially the GRC, would view this step as going a long way toward US recognition of the PRC since it would involve representation to the PRC of a whole range of US interests--including diplomatic--traditionally undertaken only vis-a-vis recognized governments when diplomatic relations are broken. The GRC would therefore be concerned that such a step would accelerate the erosion of its international position.

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Anticipated Result

Difficult to predict: Peking might accept, demanding reciprocal treatment here. If the PRC enters the United Nations and establishes a presence in New York it might be more inclined to refuse us the opportunity to establish a presence in Peking.

Implementation

Method of operation. Discuss the issue in principle with the PRC through the Warsaw channel. If Peking accepts, negotiate with a friendly power (e.g., Norwegians, Danes, British, Canadians). Inform the GRC, GOJ and Congressional leaders in advance of making the proposal to the PRC.

Timing. After the Chirep vote in the UN this fall.

- B. Propose on a reciprocal basis the establishment of official or semi-official offices with consular functions in Peking/Shanghai/Canton.

Principal Advantages

-- Would offer us a secure working channel and listening post inside the PRC and strengthen our intelligence acquisition.

-- Would provide a measure of consular access and protection, especially if underwritten by a consular agreement.

Principal Disadvantages

-- Similar to but greater than those under Option A above.

-- The GRC would react most strongly, interpreting this move as evidence of a USG policy decision to establish diplomatic relations with Peking. Many nations would share this view. The GRC would, therefore, be concerned that such a move would accelerate the erosion of its international position.

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Anticipated Result

Difficult to predict: Peking might reject such a step for fear that it would negate pressures on the USG for further concessions to the PRC thereby strengthening the USG tendency to solidify a "two Chinas" position.

Implementation

Make the proposal through the Warsaw channel subsequent to, in place of or concurrently with Option A above, i.e., after this year's Chirep vote at the UN. If the PRC accepts in principle, attempt to negotiate a consular agreement. Notify the GRC, GOJ and Congressional leaders in advance of making the proposal to Peking, stressing that such a move does not affect our diplomatic recognition of and continued support for the GRC.

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Option: Arms Control

A. Propose a renunciation of force agreement^{1/}

We could propose that the US and the PRC undertake a renunciation of force agreement based on the United Nations Charter. Although this idea was the subject of talks with the PRC in the mid-50's, it would admittedly be a major political step which would probably have to wait until the US-PRC relations had advanced beyond their present state.

Nonetheless, if some bold measure appeared desirable, a renunciation of force agreement might be considered.

Principal Advantages

-- Would be important for its political effect--a significant step toward improved relations between the US and the PRC. Would achieve this without any additional commitment on the part of the US, since the language of the declaration would simply extend basic provisions of the UN Charter to the US-PRC relationship.

-- Would protect the US nuclear deterrent against possible PRC aggression but still meet Peking's desire for assurance that the US will not launch a preemptive nuclear strike. The right of individual or collective self-defense would in no way be impaired. (Action by the US to help defend a country under attack could not convincingly be claimed to be use of force "against the territorial integrity or political independence" of the attacking state.)

-- Could help to reassure Asian states against the threat, real or imagined, of Chinese nuclear blackmail.

-- In view of Peking's apparent receptivity to an agreement on non-use of force in 1955, it is possible that the above declaration could offer grounds for agreement, providing each side were prepared not to condition agreement on acceptance of its position on Taiwan.

1. The Joint Chiefs of Staff do not concur in proposing a renunciation of force agreement with the PRC. The US is not currently a party to any bilateral renunciation of force agreement. Such an agreement with the PRC would be without precedent and its implications have not been explored and discussed fully among the agencies concerned.

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-- Might be welcomed widely by third countries in Asia which desire to avoid becoming embroiled in a nuclear war. They could see an agreement as raising-- or at least maintaining--the present nuclear threshold in Asia--that is, as tending to rule out the use of weapons except in the most extreme and catastrophic situations.

Principal Disadvantages

-- Would have no more force than any other such "paper" agreement and might therefore give the illusion but not substance of a change in US-PRC relations. (On the other hand, we have not opposed Bonn's negotiating a renunciation of force agreement with Moscow--and, in a sense, we have a multilateral agreement of this type in the United Nations Charter.)

-- Could be interpreted as an indication that the US is prepared to ignore Communist expansion which seems short of overt attack.

-- The USSR could well interpret an agreement as giving the PRC a freer hand to increase pressure against the Soviet Union. This, of all arms control measures, would elicit the most adverse Soviet response. While it could make the USSR more forthcoming in its relations with us, it could have the opposite effect and be seen as an explicitly anti-Soviet move on our part.

-- Peking could attempt to exploit the document as indicating US agreement not to interfere with the PRC's "sacred right" to liberate Taiwan as a purely domestic matter.

-- The GRC would probably register vehement opposition and would press hard for assurances that this would in no way alter the US agreement under the 1954 security treaty. It would also probably feel compelled to assert publicly that such a declaration did not circumscribe its own freedom of action.

-- Could seriously inhibit our ability to muster support internationally and domestically for possible implementation of the US-GRC Mutual Defense Treaty commitment.

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Implementation

Method of operation. This proposal could be raised in the course of bilateral negotiations at a suitable location, or through the Warsaw channel, following consultations among key allies, as well as Congressional leaders.

Timing. Since it is a major political step, a renunciation of force agreement should be proposed only at such time as it would not negatively affect the vote on Chirep. Aside from this, such an agreement could be put forward at any time we decided to undertake substantive political negotiations with the PRC.

B. Propose a meeting of five nuclear powers.

The United States, Britain and the USSR, the nuclear powers now active in arms control negotiations, could invite the other two nuclear powers, the PRC and France, to meet with them to exchange information and discuss accidental nuclear explosions or launches, accidental war, command and control, and arrangements for emergency communications. The timing of this proposal should be related to SALT to insure that it did not adversely affect prospects for a US-Soviet strategic arms limitation agreement.

Although the PRC has rejected Brezhnev's proposal for a 5-Power conference to outlaw nuclear weapons, they might find a conference limited to the question of accidents more acceptable.

Principal Advantages

-- China's agreement to participate would be politically important in terms of US-Soviet-China relations, particularly in respect to our declared policy of neutrality in the Sino-Soviet dispute. It would provide a means for exploring Chinese attitudes toward arms control and the long-term prospects for arms control understandings involving all the nuclear powers.

-- Discussions of this kind would meet France's objections to arms control talks that do not include all the nuclear states and could end France's long estrangement from the world arms control community.

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-- All the nuclear powers would have an interest in this subject. The Soviets would presumably be interested because it would involve France as well as China and might meet some of their concerns as expressed in SALT.

Principal Disadvantages

-- If the PRC accepted, it might try to use the talks to exploit differences on arms control between the United States, on the one hand, and Soviet Union and France, on the other.

-- The GRC would probably see even an invitation to Peking as according the PRC the status of a major power, and probably would protest our concurrence in the invitation and publicly denounce all parties to it.

-- Japan and other countries as well might be disturbed by the appearance of a nuclear-power monopoly.

Implementation

Method of Operation. A conference of the five nuclear powers to discuss accidental war should first be broached to our Allies, the UK and France. If the reaction is favorable it could be discussed simultaneously with the USSR and China. There should be prior consultations with other countries, particularly the GRC and Japan.

Timing. In view of similar discussions in SALT, this proposal is best deferred until resolution of the accidents question with the USSR. Following the successful outcome of those talks, we could propose such an initiative to our Allies.

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Option: US Military Presence in the Taiwan Area

A. Further Reduce the Taiwan Strait Patrol

Reduce the frequency of US Navy ship transits through the Taiwan Strait Patrol (to no more than three per month). (Since November 1969, when the assignment of two US Navy ships to regular patrol was ended, the function of the Taiwan Strait Patrol has been performed by US Navy ships transiting the Strait, "wearing the hat" of the Taiwan Strait Patrol while in transit. The level of transits is now 8-15 ships a month. Although covert intelligence reflected Peking's satisfaction with the Patrol's modification, the Patrol as a part of our military presence in the Taiwan area undoubtedly continues to be an important concern in the PRC's relations with us.)

Principal Advantages

-- Would further reduce an important irritant for the PRC, one on which Peking has given indication of gratification over the initial reduction in late 1969.

-- Would be consistent with the Nixon Doctrine's principle "that other nations can and should assume greater responsibilities, for their sake as well as ours."

Principal Disadvantage

-- Would be interpreted by the GRC as a reversal of our policy, reaffirmed to President Chiang in November 1969, of maintaining an effective US patrol of the Strait and as an indication of US willingness to alter the US-GRC defense relationship in order to achieve an improvement in relations with Peking. Strong and high-level protests probably would be made.

Anticipated Result

Could be expected to improve further the atmospherics in US-PRC relations, and possibly strengthen the present PRC

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inclination to undertake other forms of contact with the US despite the existence of the central issue of US military presence in the Taiwan area. GRC feelings of insecurity would be enhanced.

Implementation

Method of operation. DOD would program a substantial reduction in the frequency of US Naval ship transits through the Strait on Taiwan Strait Patrol. Inform the GRC two weeks in advance and Japan one week in advance, explaining it as a reflection of GRC naval capabilities to maintain the necessary patrol, thus reducing the operational burden on the Seventh Fleet.

Timing. Late 1971 or early 1972, after Chirep has been disposed of for this year and after the GRC has absorbed the impact of any adverse result in the UN's disposition of this question next fall.

B. Further reduce the US military presence on Taiwan.

Contingent on a favorable PRC reaction to the reduction in US military presence on Taiwan defined in Group II (including some indication that the PRC would not take advantage of a further reduction to provoke a crisis in the Strait area), ^{1/} reduce US forces on Taiwan to leave only the contingency command (Taiwan Defense Command, 327th Air Division and USARFT), an advisory presence (MAAG/China), and the 6987th Security Group (probably with some reduction in personnel), the Army Technical Group, and certain other technical units essential to the defense of Taiwan and the Pescadores while preserving re-entry rights.^{2/}

1. The OJCS representative believes that Option B (Further reduce the US military presence on Taiwan) should be changed as follows: insert after "Strait area" on line 5, "Offer to discuss reduction of US forces on Taiwan." Delete the balance of the paragraph.

2. The implications of the reduction of US military presence on Taiwan were addressed in NSSM 106, including treatment of intelligence implications in a separate Annex. The DOD position regarding withdrawal of military units from Taiwan is as follows: "The size and composition of our military presence may have an important bearing on whether we can persuade Peking to set aside the

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Principal Advantages

-- Would further defuse Taiwan as a central problem in US-PRC relations.

-- Would continue a minimum US military presence supporting our defense commitment to the GRC.

Principal Disadvantages

-- To the extent that US military units removed from Taiwan were retained elsewhere in East Asia, would raise US force levels in other East Asian countries.

-- Would increase the political difficulty of deploying other US military units to Taiwan in other than a contingency directly related to the defense of Taiwan and the Pescadores.

-- Theater logistic costs would be increased.

(Footnote 2 continued)

Taiwan issue and permit an improvement in our relations. However, some of the functions discussed in DOD's annex (to NSSM 106) which are performed by US military elements on Taiwan will continue irrespective of termination of hostilities in Viet-Nam and could increase in importance with implementation of the Nixon Doctrine and evolution of our base structure in the Western Pacific. Significant reduction in size and character of our military presence on Taiwan would be at the expense of some of those functions. The political advantages to be derived from such a reduction must be weighed against the political and military liabilities arising from displacement, reduction, or elimination of those functions.

The selection of an option concerning our military presence on Taiwan as a means of reducing tensions between the US and the PRC must consider the fact that those tensions were the reasons for our military presence in the first place. Our experience in negotiating with the Asian communists affords ample proof of the necessity for strict and enforceable quid pro quos. Dismantling our military presence on Taiwan as an inducement to the PRC rather than as a condition attendant to and dependent on specific assurances and commitments by Peking to move to reduce tensions and normalize relations tends to concede the validity of PRC assertions that the US is solely responsible for such tensions. The military risks and political costs to the US and its allies which might follow from such a course of action, assuming, of course, that our treaty commitments remain in force, must be carefully considered."

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-- The GRC would see this action as confirming its reading of the previous reduction of the US military presence on Taiwan and as signifying an intention to move to complete withdrawal. It probably would react strongly in an effort to prevent this action, including a personal appeal by President Chiang.

-- Would probably weaken confidence of other Asian allies in our defense commitments.

Anticipated Result

Could be expected to improve US-PRC relations further, and could strengthen PRC willingness to defer settlement of the Taiwan issue.

Implementation

Method of operation. Undertake the redeployment to the US or to other East Asian countries of all US military units on Taiwan except the contingency command, the advisory group, and intelligence functions. Notify the GRC, at least a month in advance of our intention to initiate such a further reduction of our military presence, emphasizing that our move is in line with theater redeployments and would in no way diminish the firmness of our security commitment to the GRC. Notify Japan and Korea one week in advance.

Timing. When the PRC has shown an improved disposition toward the US particularly as regards the issue of Taiwan, following the reduction in US military presence on Taiwan proposed under Group II.

C. Maintain only a small military liaison group on Taiwan

Contingent upon PRC willingness to agree to a mutual renunciation of force in the Strait area or an equivalent assurance from the PRC that it will not take advantage of a further reduction to provoke a crisis in the Strait area, remove all US military presence from Taiwan and the Strait area, except for that required to perform essential intelligence functions and to meet the statutory requirements of the military assistance program, while retaining reentry rights and maintaining our defense commitment to Taiwan and the Pescadores.^{1/}

1. The implications of the reduction of US military presence on Taiwan were addressed in NSSM 106, including treatment of intelligence implications in a separate Annex. See footnote on page 74.

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Principal Advantages

-- Would probably remove the issue of US military presence on Taiwan as an impediment to the normalization of US-PRC relations.

-- Would be consistent with the Nixon Doctrine's emphasis on other countries assuming a greater share of the responsibility for their own defense.

Principal Disadvantages

-- Would weaken confidence of the GRC and some other Asian allies in our defense commitment.

-- Might be interpreted as a sign of US weakness.

-- Would make more difficult the ongoing US-GRC joint contingency planning, and would impair our ability to assist the GRC in improving its military planning and modernizing its military organization and equipment.

-- Would require the relocation of (a) intelligence functions, some of which could not be performed elsewhere and (b) a strategic communications facility, which would entail an expenditure of at least \$20 million.

-- Would further increase the cost and difficulty of deploying other US military units to Taiwan in other than a contingency directly related to the defense of Taiwan and the Pescadores.

-- Would reduce our ability to monitor GRC military actions.

Anticipated Result

Would further strengthen PRC willingness to defer settlement of the Taiwan issue.

Implementation

Method of operation. DOD would redeploy all US military units from Taiwan except for a residual liaison group and terminate the Taiwan Strait Patrol making arrangements with the GRC for maintenance of facilities to be used in a contingency. Notify the GRC well in advance of implementation of the reduction, emphasizing the continuing validity of our defense commitment. Similarly advise other Asian allies.

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Timing. After the PRC had conveyed reasonable assurances that it would not take advantage of a further reduction to provoke a crisis in the Strait area.

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ANNEX TO OPTION ON BLOCKED CHINESE ASSETS AND US CLAIMS

The Treasury is in the process of conducting a current census of frozen Communist Chinese assets. A projected total of such blocked assets, based on our analysis of 56% of the census reports processed to date, is \$70-\$75 million. The total is composed of 30% held for Chinese individuals (either mainland residents or Chinese nationals residing elsewhere), 57% for corporations, 1.7% for partnerships, 1.5% for unincorporated associations, 1.7% for the PRC and its agencies, and 8.1% for all others. (The total for corporations includes banks which are now PRC agencies, as are many of the corporations.) Approximately \$9 million of the total is held in the blocked account of Banque Belge.

On the claims side, the total amount of awards by the Foreign Claims Settlement Commission is \$196,047,702.98.

This figure is composed of 375 awards. 346 awards were in amounts under \$500,000 each, for a total of \$54 million. Of these 346 awards, 295 were to individuals, 23 to religious and educational groups, and 28 to business firms.

There were 29 awards of \$500,000 or more, for a total of \$142 million. A list of all awards over \$500,000 by name and amount is attached. China claims are no longer being awarded by the Commission, although some awards are being appealed, which could cause changes in the above figures.

If the United States were to vest these assets and distribute them to awardholders, each awardholder could receive as payment 38% of his claim (assuming the liquidated assets amounted to \$75 million). This would also be the case if a negotiated settlement similar to the "Litvinov Assignment" (a plan used after U.S. recognition of the U.S.S.R.) were adopted. Under this latter type of arrangement, the PRC would nationalize the assets of its nationals in the U.S. (to the extent this has not already occurred) and assign them to the U.S. Government for use in the claims settlement program.

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The 38% distribution might be modified if preference were given by statute to certain classes of awardholders. For example, preference was given to religious groups in the World War II claims program over corporate claimants. If that precedent were followed, the percentage available for the claimants not in the special class would, of course, be correspondingly reduced. One distinction between the World War II religious groups to which preference was given and religious groups with claims against China is that the element of persecution is not present in the same degree. The total amount of awards to religious and educational groups under the China program is approximately \$37 million or 19% of the total. In the event of a preference providing for 100% priority payments to the religious and educational groups, the remaining claimants could not be paid more than 24% of their awards.

The Boise Cascade case is an illustration of the significance of this program to individual American firms. The largest single awardholder is Boise Cascade Co. which has two awards to its wholly-owned subsidiaries (Shanghai Power Co. and Western District Power Co.) totaling about \$56 million. Settlement on the basis of existing frozen assets could result in Boise Cascade receiving as much as \$21 million from the program, assuming the value of the liquidated assets proved in the final analysis to amount to 38% of the awards. (As an incidental matter, Boise Cascade did not receive any benefit from the tax write-off provisions of the relevant 1950 statute, since its subsidiary had large losses on its books at the time.)

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AWARDS GRANTED BY THE FOREIGN CLAIMS
SETTLEMENT COMMISSION FOR CHINA CLAIMS

Total number of Awards Total amount awarded
as of 3-31-71 -- 375 on all China claims -- \$196,047,702.98

Number of Awards under \$500,000:

Individuals:	295
Religious and Educational Groups:	23
Businesses:	28

Number of Awards of Total amount: \$142,319,817.62
\$500,000 or more: 29

<u>Docket No.</u>	<u>Name</u>	<u>Amount Awarded</u>
CN-0067	Henningsen Produce Co. Fed. Inc.	\$ 646,857.52
CN-0069	Kiangsu Realty Co. Fed. Inc., USA	953,846.00
CN-0079	Sisters of Charity of St. Joseph	1,335,838.00
CN-0088	The Robert Dollar Co. (Formerly Robert Dollar of China)	535,742.62
CN-0090	The Evangelical Board of Missions, United Brethren Church	658,500.00
CN-0096	National Board of YMCA	2,250,419.10
CN-0107	Paul A. Bell, Executor of the Estate of Joseph G. Bell	877,500.00
CN-0180	Kim Loon Fong	953,846.00
CN-0245	Frazar Fed. Inc., USA	511,494.00
CN-0249	Caltex (Asia) Limited	15,443,700.00
CN-0264	Board of World Missions	1,711,688.00
CN-0269	American Baptist Foreign Mission	2,452,947.12
CN-0280	Shanghai Power Co.	53,832,885.00

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CN-0285	International Tel & Tel International Standard Electric Corp. (Subsidiaries of ITT Corp.) which filed the claim	\$ 6,728,994.00 3,228,852.56
CN-0288	Esso Standard Eastern, Inc.	27,026,602.00
CN-0291	Western District Power Co.	1,758,684.55
CN-0292	General Electric Co.	4,546,199.56
CN-0297	Corporation of the Mission of St. Vincent de Paul of Germantown	3,124,909.92
CN-0320	Shiro Brothers Fed. Inc.	647,795.00
CN-0392	Trustees of Lingnan University	5,700,000.00
CN-0401	United Board of Christian Higher Education in Asia	23,245,557.00
CN-0416	Shanghai Wharf and Warehouse Co., Fed. USA	1,042,861.89
CN-0428	Biola Schools and Colleges, Inc.	962,000.00
CN-0448	First National City Bank	1,562,144.68
CN-0462	Yale-in-China, Assoc.	1,363,682.00
CN-0466	Society of the Congregation of Missions of St. Louis, Mo.	3,053,900.00
CN-0476	Solomon E. Shahmoon	1,675,654.60
CN-0487	Ezra E. Shahmoon	523,309.48
CN-0558	Evelyn C. Mah	719,763.00

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GRC Past Due Obligations to USG
which arose prior to 1949

1. Lend Lease

The GRC's acknowledged lend-lease obligation is listed by Treasury as \$81.6 million, representing civilian type articles furnished during the war, and in the possession of the GRC on V-J day, as well as lend-lease aid after V-J day covered by specific agreements or arrangements. This acknowledged obligation breaks down into:

a. Pipeline agreement signed in 1946, to pay for lend-lease goods on order but undelivered at the termination of lend-lease. This agreement stipulated a sum of \$50 million, to be amortized in 30 annual installments, with interest on the unpaid balance of 2 3/8% beginning July 1, 1947. No payments made since July 1949. Past due principal came to 36.9 million, and interest 24.5 million, a total of \$61.4 million, as of December 31, 1970.

b. "Cash account," originally \$27 million in payment of certain transfers, of which \$20.2 million represents the balance due.

The \$81.6 million covered by agreements represents only a small part of the \$1.6 billion furnished China under lend-lease during World War II. The actual total amount of China's obligation must be determined in negotiations which have lapsed since 1949.

2. Surplus Property

The only account among the USG's surplus property claim listed by Treasury as past due is the Kiangnan Dockyard contract of May 15, 1946. Of a total of \$5.8 million in arrears, \$3.1 represents principal and \$2.7 interest.

In addition, the Bulk Sale Agreement of 1946 represents \$45 million owed to the USG, while the "West China Balance," an agreement of November 29, 1945, representing the sale of military supplies and air installations, carries a \$20 million balance owed to the USG. In the absence of a schedule of repayments, neither of these accounts is technically considered past due.

3. Export-Import Bank

By agreement, the GRC is not at this time being called upon to make payments on portions of 4 loans made to the GRC prior to 1947. These loans, which relate to assets "no longer under the GRC's control," include:

<u>Date</u>	<u>Type</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>
2/20/46	Railway repair	16,650,000	3 %
2/20/46	Cargo Vessels	5,501,168	3.5%
2/20/46	General Equipment	7,949,213	3 %
3/13/46	Coal Mining Equipment	1,494,510	3 %